GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
LOK SABHA
STARRED QUESTION *161
TO BE ANSWERED ON FRIDAY, THE 29TH DECEMBER, 2017
08, PAUSHA, 1939 (SAKA)

INCOME TAX EXEMPTION TO URBAN COOPERATIVE BANKS

***161. SHRI RAMSINH RATHWA:**

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that by withdrawing exemption under section 80P of the Income Tax Act, 1961, the Urban Cooperative Banks have been deprived of the funds that could be loaned to small traders, professionals and middle class of the urban society, if so, the details thereof and the reasons therefor;

(b) whether the Government is reconsidering the issue and contemplating to exempt the Urban Cooperative Banks under section 80P of the Income Tax Act; and

(c) if so, the details thereof and if not, the reasons therefor?

ANSWER

FINANCE MINISTER
(SHRI ARUN JAITLEY)

(a) to (c) A statement is laid on the table of the House.

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Statement referred to in the reply to the Lok Sabha Starred Question No *161 for answer on 29/12/2017 raised by Shri Ramsinh Rathwa, regarding "Income Tax Exemption to Urban Cooperative Banks"

(a) Finance Act, 2006 withdrew the exemption provided under section 80P of the Income tax Act,1961,('the Act') to co-operative banks other than primary agricultural credit societies (PACS) or primary co-operative agricultural and rural development banks (PCARDBs) on certain grounds which inter-alia, includes:-

(i) Co-operative banks function like any other commercial bank and the principle of mutuality, which is central to granting exemption under section 80P of the Act does not apply because their area of operations extends even to non-members.

(ii) Most of these banks are providing standard banking facilities like opening of letters of credit, bill discounting and collection, lockers and safe deposit vaults, bank guarantees etc. Many of these deal in foreign exchange and have also opened ATM kiosks. These banks are thus no different from commercial banks and therefore are required to be treated at par with them.

(iii) Income-tax is a tax on profits and there is no rationale for exempting profit-making co-operative banks from payment of income-tax.

Since cooperative banks are like any other commercial banks who do not enjoy exemption under section 80P of the Act, the availability of funds is predominantly determined by its ability to mobilize savings through improved machinery, technology and governance. Taxation, per se, does not discriminate between various types of banks for the purposes of cash flow.

(b) to (c) No, Madam, at present the government is not reconsidering the issue for the reasons discussed above.

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